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Security Council

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Report of the Secretary-General pursuant to paragraph 16 (c) of resolution 1483 (2003)

1. In paragraph 16 (c) of its resolution 1483 (2003) of 22 May 2003, the Security Council requested the Secretary-General to:

> "... provide the Security Council within 21 days following the adoption of this resolution, for the Security Council's review and consideration, an estimated operating budget based on funds already set aside in the account established pursuant to paragraph 8 (d) of resolution 986 (1995) of 14 April 1995, identifying:
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> (i) All known and projected costs to the United Nations required to ensure the continued functioning of the activities associated with implementation of the present resolution, including operating and administrative expenses associated with the relevant United Nations agencies and programmes responsible for the implementation of the Programme both at Headquarters and in the field;
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> (ii) All known and projected costs associated with termination of the Programme;
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> (iii) All known and projected costs associated with restoring Government of Iraq funds that were provided by Member States to the Secretary-General as requested in paragraph 1 of resolution 778 (1992); and
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> (iv) All known and projected costs associated with the Special Representative and the qualified representative of the Secretary-General identified to serve on the International Advisory and Monitoring Board, for the six month time period defined above, following which these costs shall be borne by the United Nations;"

2. In paragraph 16 of the same resolution, the Council also requested the Secretary-General to continue to exercise his responsibilities under resolution 1472 (2003) of 28 March 2003 and 1476 (2003) of 24 April 2003 for a period of six months following the adoption of resolution 1483 (2003), and to terminate within that time period, in the most cost-effective manner, the ongoing operations of the Oil for Food Programme. In paragraph 16 (f) the Council requested the Secretary-General to develop, in close coordination with the Authority and the Iraqi interim administration, a comprehensive strategy that would lead to the delivery of all

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relevant documentation and the transfer of all operational responsibility of the Programme to the Authority by 21 November 2003.

3. Since the adoption of the resolution, the monitoring and observation tasks deriving from resolution 986 (1995) and the management of letters of credit in respect of oil sales have been discontinued. All ongoing substantive operations will be phased out within the six months following the adoption of resolution 1483 (2003), including the handover of operational responsibilities and relevant documentation to the Authority/Iraqi interim administration.

4. The Office of the Iraq Programme, the United Nations Humanitarian Coordinator in Iraq and the agencies and programmes involved have begun that process. All operational personnel of the United Nations and the implementing agencies who supported the implementation of resolution 986 (1995) will cease their activities by the end of November 2003. During that period, there will be a need to continue to provide administrative, financial, personnel, information technology, transport, technical, procurement, logistical and warehousing support. Those activities directly support all programme components and must continue as long as other components continue.

5. After 21 November 2003, a limited number of administrative personnel will remain in Iraq to complete the necessary administrative tasks and close down at the field level; that phase is scheduled to be completed by the end of December 2003. With regard to the administrative tasks at respective agencies' headquarters, it is anticipated that they will be completed by the end of March 2004. A limited number of staff will be required in New York until the end of June 2004.

6. The above-mentioned tasks involve the final certification of projects activities; the cancellation of contracts and purchase orders and the stocktaking of all physical property of all components; the liquidation of outstanding obligations and cash advances; payments for all outstanding invoices and claims; processing the settlement of staff entitlements upon separation; the closure of local account books, bank accounts and cash on hand; performing all human-resources functions related to closure of the office; disposing of non-expandable property; the preparation of financial and administrative reports; and the preparation and securing of necessary documentation related to the audit trail and the submission of accounts to the United Nations.

7. With regard to letters of credit issued by the bank for the purchase of humanitarian supplies for the south/centre of Iraq, since they are irrevocable and non-transferable they will continue to be handled by the United Nations beyond 21 November 2003 and will therefore not be transferred to the Authority.

8. There are currently some 3,000 such letters of credit outstanding, with a value of some $8 billion. The United Nations will retain responsibility for their administration until they are executed or they expire. Collateral for the full value of the letters of credit will be kept by the United Nations. As and when a contractor meets all conditions for payment of a letter of credit, payment will be made even if that should transpire after 21 November 2003. The conditions for payment of such letters of credit are twofold: a valid letter of credit, issued by the bank; and presentation of all documentation as per terms and conditions of the letter of credit, including authentication of delivery. Any balance left after the execution or

expiration of such letters of credit will be transferred to the Development Fund for Iraq.

9. For the period after 21 November 2003, the Secretary-General will be making arrangements with the Authority to have the Authority designated as the entity authorized to give authenticated confirmation of the delivery of the goods, pursuant to resolution 986 (1995), paragraph 8 (a) (iii); subsequent processing of the required payment would be made by the United Nations.

10. The alternative to maintaining the current arrangement would be to obtain the agreement of all parties for each individual letter of credit to amend existing letters of credit so that the responsibility currently devolving on the United Nations could be transferred to the Development Fund for Iraq. The parties concerned are the contractor, the bank, the United Nations and the Authority, which would require renegotiating and amending approximately 3,000 outstanding letters of credit. In light of the large number of letters of credit involved, that is not considered to be a practical solution.

11. Assuming that all deliveries are completed by 21 November 2003 under outstanding letters of credit, it is anticipated that all letters of credit will have been submitted, authenticated and processed by the end of June 2004; that would allow all financial transactions to be registered in 2004, a final financial statement for the whole operation to be prepared by December 2004 and a final external audit report to be prepared by April 2005.

12. Given its complexity, it is difficult to evaluate fully, within the time given, the precise costs of effectively terminating the programme and handing over residual activities in an orderly manner. The best estimate for all known and projected costs to ensure the continued functioning of activities associated with the implementation of resolution 1483 (2003), both at Headquarters and in the field, including the termination of the programme (paragraphs 16 (c) (i) and (ii)), are estimated at $106.6 million. Of that amount, $81.0 million relates to the period ending 21 November 2003. The balance of $25.6 million relates to the liquidation tasks that would need to be performed and which are enumerated in paragraph 6 above.

13. In addition to the costs indicated in paragraph 12 above, there is a need to have a contingency reserve to meet any potential costs that might arise but could not be identified in preparing the current estimates. Given the complexity of the issues concerned and the time factor, that would seem a prudent course of action. Such a contingency would be established at 15 per cent of the total estimated costs.

14. With regard to paragraph 16 (c) (iii) of resolution 1483 (2003), the known and projected costs associated with restoring the Government of Iraq funds that were provided by Member States to the Secretary-General as requested in paragraph 1 of resolution 778 (1992) are minimal. The restoration of funds to Member States as per paragraph 17 of resolution 1483 (2003) itself is under way. An amount of $404.9 million will be restored, $65.8 million of which will be refunded from balances remaining in the account and the remainder of $339.1 million shall be funded from unencumbered funds in the accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995), as stipulated in paragraph 17 of resolution 1483 (2003).

15. With regard to paragraph 16 (c) (iv) of resolution 1483 (2003), the Secretary-General believes, after consultations with members of the Council, that the costs

associated with his Special Representative and his qualified representative to serve on the International Advisory and Monitoring Board should constitute expenses of the Organization rather than be funded from the account established pursuant to paragraph 8 (d) of resolution 986 (1995). No provision has therefore been made in that connection.

16. The balance at end of May 2003 in the account established pursuant to paragraph 8 (d) of resolution 986 (1995) is estimated at $400 million. After deduction of the estimated operating budget ($106.6 million) and the contingency reserve ($16 million), the surplus available for transfer to the Development Fund for Iraq amounts to $277.4 million. The transfer of the surplus will be made in the days to come, thus fulfilling the requirement to transfer as soon as possible the surplus in the account established pursuant to paragraph 8 (d) of resolution 986 (1995), as required by paragraph 17 of resolution 1483 (2003).

17. Upon the final closing of the accounts and subsequent to its final audit, any balance remaining from the operational budget and/or the contingency fund will be transferred to the Development Fund for Iraq.